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IMPACT OF PROPOSED RETIREMENT REFORMS
ON THE CENTRAL INTELLIGENCE AGENCY

I. Background

The President's FY-1984 Budget message proposed a number of major changes to the Civil Service Retirement Act (CSRA). The legislation to implement these changes is in the process of being developed by the Office of Management and Budget. While the thrust of the proposed changes are specifically directed at the Civil Service Retirement System (CSRS), the Office of Management and Budget has informed a representative of the Agency's Office of General Counsel that it will propose changes to the CIA Retirement and Disability System (CIARDS) bearing some direct proportion to the changes in the CSRA. These proposals are as follows:

a. Annuity Adjustment for Early Retirement

Voluntary retirement age with no reduction in annuity would be raised from 55 to 65, phased in over a period of 10 years. Employees age 55 or older at enactment would not be affected. During the 10-year phase-in period, employees who reached age 55 could continue to retire with 30 years of service but their annuities would be reduced by 5% for each year they were under age 55 at the time the legislation is enacted. Thus, for example, an employee who was 54 with 29 years of service at the time this provision was enacted would face a 5% penalty for retiring at age 55. Someone age 53 at enactment would face a 10% penalty for age 55, and so on. Someone age 45 would face a full 50% penalty. This reduction would not apply to persons retiring because of disability.

b. Cost of Living Adjustments (COLA's)

This proposal would eliminate the retiree COLA adjustment for 1984 and make permanent the current legislation on COLA's for nondisability retirees under age 62 by allowing one-half the full COLA increase for 1985 and thereafter.

c. Increase Employee Deductions for Retirement

Employee contributions would be increased from 7% to 9% pay deduction in 1984 and to 11% in 1985. Government contributions would be adjusted to these same amounts for these same years.

d. Raise the Base for Annuity Calculations

Currently, annuity calculations are based on an average of the employee's highest three years of salary. This would be changed to the employee's highest five years of salary. Employees within three years of retirement eligibility at time of enactment would not be affected by this change.

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e. Modify the Annuity Formula

A formula is used to determine the percentage of salary that is replaced by retirement benefits. For example, an employee who retires after 30 years of service now receives an annuity based upon 56.25% of the highest three years' salary under Civil Service and 60% under the CIARDS Retirement System. The Administration's proposal would alter this formula to reduce the replacement rate, if necessary in conjunction with other proposals, to reduce the total cost of the system to 22% of payroll and enable employer contributions to be limited to 11% of salary.

At the present time the employee contributes 7% of salary while the government contributes a 7% matching amount plus an additional 26% of payroll to fund current benefit payments and meet legal requirements. This proposal would set the true actuarial value of retirement benefits at 22% of payroll supported solely by employee and Agency contributions.

II. Applicability to the Agency

All of the proposed changes to the CSRA would be applicable to the Agency and our employees under the CSRS if enacted into law without modification. CIARDS and CIARDS participants would also be included in proportionate application of the proposed changes if, as OMB has stated, the Agency's special retirement system will be included in new legislation. All new appointees to the CIA are initially covered by the CSRS. This includes employees slated for careers with the clandestine services or in support of clandestine activities abroad. Eligibility for transfer of employees from CSRS to CIARDS coverage is reached only after the individual serves 60 months of qualifying service. Approximately 80% of Agency personnel are covered by CSRS with 20% under CIARDS.

Among the several proposed changes, the proposition to increase voluntary retirement age with no reduction for annuity from age 55 to 65 (50 to 60 under CIARDS) with the imposition of severe penalty reductions of 5% per year for retirement under age 65 poses severe problems for Agency management and our personnel.

The proposal to "Modify the Annuity Formula" has only been sketchily described as of this time but if the reductions in future annuities intended by application of a new formula are too severe this too can create serious management problems for the Agency.

III. Early Retirement as a Management Tool in the CIA

As far back as 1959, CIA established a policy which encouraged employees to retire at ages substantially earlier than elsewhere in government (56.9 under CSRS and 52.8 under CIARDS). This policy was established for several reasons: in recognition of the need to maintain a vigorous and productive work force which is fully and quickly responsive to the Nation's intelligence needs; recognition of those aspects of Agency employment where individuals serve anonymously under conditions involving personal sacrifice, stress, and often danger; to insure an effective career development program which provides and manages timely advancement to positions of increasing responsibility; and to encourage early retirement of personnel after 20 to 30 years of service.

This retirement policy--which has served the Agency exceedingly well these past 24 years--remains an integral part of the Agency's personnel management system. It helps maintain the extremely high level of performance required by CIA's mission and responsibility by providing predictable attrition necessary for both career development and inducements for recruitment of new employees. Lengthening the service of Agency employees by as much as ten years would seriously impair the ability of Agency management to move promising individuals up through the ranks.

The severity of negative impacts on the Agency's personnel management system brought about by these changes are apparent. Employees at all levels will quickly perceive that their advancement will be seriously curtailed, blocked by senior officers who must work longer in order to qualify for unreduced annuities. The mid-career people would be hardest hit by the retirement age increase and penalty proposals and creates the serious risk that many might choose to leave now rather than face the consequences of the future.

IV. Impacts of Proposed Changes on the CIA

Agency management foresees a sequential series of negative results triggered by institution of the proposed changes.

a. Loss of many of our more senior and most valuable employees now eligible for retirement. Of the Agency's Senior Intelligence Service (SIS) level officers (equivalent to the Senior Executive Service in other agencies) 36% are now eligible for retirement with an extremely high 67% of the Operations Directorate officers eligible. These are the top managers and most senior substantive officers in the Agency's operational, analytical, high technology and support areas. There is serious concern that many of these eligibles will elect to retire in larger numbers in compressed time frames as they foresee succession prospects fade as more senior, noneligible incumbents extend their departure dates to future years. (See Chart I)

25X1 The "feeder" group for the SIS cadre comes from the GS-15 level officers and successively from the GS-14 and GS-13 pools. There are approximately 13.3% of our GS-13 through GS-15 officers now eligible to retire. This overall number of eligibles may appear relatively low [] but within these numbers are a very high percentage of employees in relatively critical occupational areas in each of the directorates, particularly in Operations. (See Chart II)

b. Institution of early retirement penalties will severely reduce the future flow of retirements and create blockages of developmental assignments and dry-up promotion headroom.

The current provisions of both CSRS and CIARDS provided a predictability of the projected patterns of the timing and numbers of retirements that enabled Agency management to establish employee career development on a definitive basis and promotion within reasonable time frames to reward excellence of performance. The institution of retirement changes extending the retirement age for unreduced annuities will result in blockages as regards rotational assignments and reduce promotion headroom. The resultant extension of service of increasingly large numbers of employees well beyond their currency on the state of the art in substantive and technological areas and the capacity of operational people to handle the milieu of clandestine operations will have a serious debilitating impact on our effectiveness in meeting requirements.

c. Loss of the most promising of our mid-level and younger officers who would seek careers elsewhere when blockages for assignments and advancement occur.

In the same time frames in the near future when older and longer service employees extend their service to qualify for unreduced annuities, many of our mid-level and younger officers will perceive the lack of future opportunities and will elect to move elsewhere. The mid-level cadre also would be hardest hit by early retirement penalties which would further stimulate decisions to simply withdraw retirement contributions for investment elsewhere and move to the private sector.

d. Increased turnover in the ranks of intelligence personnel will make it increasingly difficult to safeguard national security information.

If the Agency is to carry out its extremely important mission and particularly if it is to assure the utmost security of our Nation's most sensitive information, it cannot afford to become a short term training facility for its work force. There are a number of agencies in government which strive for short term staffing. The U.S. Attorney's Office, the Department of Justice and regulatory agencies such as the FTC and SEC are examples. The need for a highly motivated, extraordinarily capable career cadre able to serve a full career of 20 to 30 years, is an absolute necessity.

e. Elimination of the strongest inducements for recruitment, the ability to offer--in return for service in demanding and often unique circumstances--the prospects of a career with rich developmental opportunity, timely promotions, and retirement with nonreduced annuities at a relatively young age.

The Agency's ability to meet its new hire requirements will be critically weakened by any dilution of the combined career and benefit package currently available. The majority of the Agency's recruits for experienced area experts, economic, political analysts and scientific and technical analysts are drawn from the ranks of private enterprise and/or academic and research facilities. The inducement to join the Agency is made up of a combination of interest in serving the Nation in a vital capacity, the opportunity for a career where their talents will be fully utilized, reasonable compensation, and retirement at a relatively young age permitting a return to academia or other pursuits.

The CIARDS system was established by law in 1964 in recognition of the special circumstances of service with the clandestine side of the Agency abroad. This special system offers nonreduced annuities for members at age 50 with 20 years of service. The circumstances of frequently dangerous and adverse working and living conditions lead to burn-out or compromise of personnel serving the overseas activities of the Agency. The absence of early retirement incentives for these employees would be severely incompatible with initial recruitment and future effective staffing of our overseas activities.

V. Conclusions

It is absolutely essential for the CIA to maintain CIARDS with its special retirement provisions for its operational cadre. It is imperative that the individuals under CIARDS and those who are following career paths that will enable them to qualify in the future are assured of retention of the opportunity for early retirement with unreduced annuities and the somewhat higher annuity rate in return for their type of services.

The problems which the proposed changes pose for the CIA are not limited to CIARDS. There are many facets of intelligence work that are equally as vital as the efforts of our officers collecting human intelligence overseas. These require us to have employees who embody the best expertise in numerous skills and diverse fields of study. It is especially critical for our Nation's intelligence apparatus to be at the leading edge of the state of the art in substantive and scientific and technological areas. To do this, it is essential to attract and retain the best talent, which means intense competition with the private sector, where higher salaries are frequently available. The CSRS has been a key factor in our ability to attract and retain the kind of talent that is critical to our national security.

VI. Recommendations

It is recommended that the CIA be exempted from the retirement age and penalty changes proposed for the Civil Service Retirement System and that the same exemptions be extended to the CIA Retirement and Disability System.